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DEPARTMENT FOR EUR/SCE (ERIN KOTHEIMER AND YOULIANA IVANOVA)

PASS TO TREASURY FOR VIMAL ATUKORALA

E.O. 12958:N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [AL](#)

SUBJECT: ALBANIA'S INSURANCE SECTOR PRIVATIZES, EXPANDS

Summary

¶1. The GOA is preparing to privatize INSIG, the state-owned insurance company, as the Government moves to sell off one of its last remaining state enterprises since the fall of communism 17 years ago. The forthcoming privatization is almost an afterthought for an insurance sector that has been marked by high growth and increasing interest by foreign investors that have flooded into the market over the last two years. End Summary.

¶2. Ten companies compete in the Albanian insurance market. All but INSIG are privately held, and INSIG is already partially privatized, with outside investors owning 39 percent of its shares. In 2007, INSIG had 16.2 percent of the market, trailing its competitors Sigal and Sigma, which held 27.8 percent and 17.8 percent, respectively, of the non-life insurance market. An open international tender for INSIG is expected to be announced later this spring after the GOA completes legal and financial due diligence.

¶3. INSIG's privatization was initiated three years ago, but was postponed due to a lack of interest from qualified bidders. So far, one of Croatia's major insurance companies, Croatia Osiguranje, is the only potential investor to publicly express interest in bidding on INSIG. Reportedly, prospective bidders might include insurance giants that have a presence in Eastern Europe, like Allianz (Germany), Generali (Italy) and AIG (Italy). Other interested companies might be Erste (Austria), Ergo (Germany), KBC (Belgium) and Grawe (Austria). Experts estimate that the GOA could realize between Euro 32 million up to 48 million for INSIG's privatization. (Note: According to the enabling law passed by Parliament for INSIG's privatization, if the Government fails to sell the entire package of state-owned shares (61%) to a strategic investor, the remainder of the shares will be offered to the public.)

Growing Market for Insurance

¶4. INSIG was established in 1991 as a state-owned insurance carrier and was the first company to offer insurance following the collapse of communism. In June 2004, the GOA privatized 39 percent of the company, equally divided between the European Bank for Reconstruction and Development (EBRD) and the World Bank's International Finance Corporation (IFC). Due to the entrance of private operators into the insurance sector, INSIG has lost its dominant market position in recent years. However, it has managed to remain one of the largest insurance operators in the country, ranking third in non-life insurance and second in life insurance in market share for 2007. INSIG has also expanded its operations into Kosovo and Macedonia. (Note: In 2000, INSIG opened a branch in the UN administered territory of Kosovo and in 2004 the company began operating in Macedonia.)

¶5. Albania's insurance industry has experienced high rates of

growth over the last seven years, but still lags behind neighboring countries. In 2007, the sector grew by 30 percent compared with 2006, with total revenues reaching Leke 5.9 billion (USD 65.6 million). The insurance industry remains largely untapped and continues to rely heavily on compulsory insurance, mainly third party automobile liability premiums, which in 2007 accounted for 70 percent of total non-life written premiums. Servicing life insurance policies is still in its infancy in Albania and last year represented only 6.9 percent of the insurance market. However, life insurance continues to experience remarkable growth; in 2006 it increased by 29 percent compared to 2005 and grew another 33 percent in 2007. The number of insurance contracts issued last year increased by over 74 percent from 2006.

Foreign Companies Stake a Claim

16. Foreign companies began to enter the Albanian insurance market in 2006/2007. TBIH Financial Services Group, N.V., 60 percent owned by Vienna Insurance Group, purchased 75 percent of Sigma's shares, the second largest insurance company in the market. Greek-owned Aspis Holdings Public Company Ltd. purchased 51 percent of InterAlbania's shares, the fifth largest sector competitor, and UNIQA International Beteiligungs-Verealtungs GmbH (Austria) purchased 46 percent of SIGAL, the market leader last year.

17. Insurance supervision and regulation are improving and an amendment to the country's insurance law was adopted in early 2007, increasing the guarantee fund for insurance companies. The Albanian Financial Supervisory Authority, the GOA's insurance regulatory agency, was established in 2006 and has undertaken a number of initiatives to supervise the market. Also, the GOA's Competition Authority has been active in trying to improve competition in the market which is beset by charges of price-fixing. The underdeveloped state of Albania's insurance market is expected to

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improve as the steady economic growth during the last seven years (averaging over 5.5 percent), increasing per capita income, the entrance of experienced foreign operators, and improvements in the legal and supervisory framework act in concert to boost the market.

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